

CITY OF ASHEVILLE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2007

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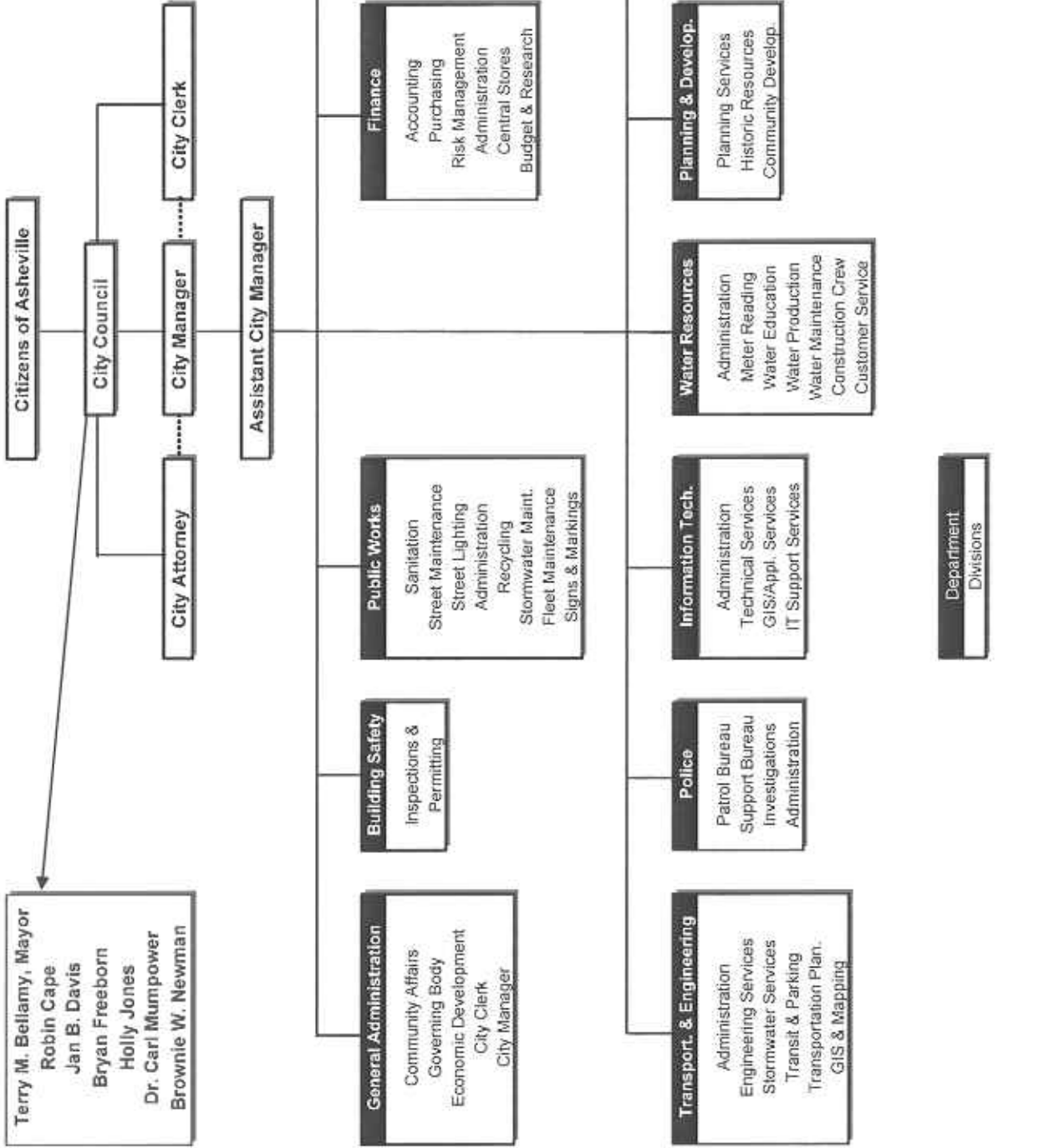
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CITY OF ASHEVILLE ORGANIZATION CHART



City of Asheville

MISSION STATEMENT

The City of Asheville is committed to delivering an excellent quality of service to enhance your quality of life.

CORE VALUES

In order to achieve our mission of providing quality service to enhance the quality of life in Asheville, we adhere to the following core values:

A Accountability:

By being responsive and responsible to citizens and their elected representatives.

S Service:

By treating those whom we serve with respect and dignity.

H Honesty:

By providing accurate, truthful, and complete information.

E Efficiency:

By constantly striving to use technology and innovation to provide the highest level of service for the lowest possible cost.

V Vision:

By looking toward the future with a focus on creating a better Asheville.

I Integrity:

By approaching our work honestly, ethically, and with sincerity.

L Loyalty:

By diligently promoting and supporting the interests of the community we serve.

L Leadership:

By being a model for quality service and professionalism in our community and throughout the nation.

E Equal Opportunity:

By encouraging our diverse population to participate in the government of our city as citizens and employees.

"Our Quality of Service, Your Quality of Life"



City of Asheville, NC

Finance Department

October 31, 2007

To the Honorable Mayor,
Members of the Governing Council,
and Citizens of the City of Asheville, North Carolina

State law requires that every general-purpose local government publish a complete set of audited financial statements within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2007.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Dixon Hughes PLLC, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Asheville's ("the City") statements for the year ended June 30, 2007. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis ("MD&A") immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of Government

The City, incorporated in 1797, is located in the western part of the state, which is considered to be the top growth area in the state and one of the top growth areas in the country. Asheville currently occupies a land area of 43.64 square miles and serves a population of 75,947. The City is the county seat of Buncombe County, the largest city in Western North Carolina and tenth largest city in the State. Asheville is nestled between the Blue Ridge and Great Smoky Mountains and located astride the French Broad and Swannanoa Rivers. The City is surrounded by lush mountains, many with elevations above 5,000 feet. Asheville's natural and architectural beauty, moderate climate, strong job market and outstanding educational and health care facilities make it one of the most attractive locations in the United States. Asheville is consistently ranked high among the best places to live, work, and retire. The City's long-range planning is directed toward preserving this area's high quality of life, so that it shall remain one of the "best places."

The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council ("Council") consisting of the mayor and six other members. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three council members elected every two years. The mayor is elected to serve a four-year term. The Council is responsible for adopting the budget and appointing the City Manager, City Attorney and City Clerk. The City Manager is responsible for implementing Council policies, City ordinances, and managing daily operations and appointing department directors.

The City provides a full range of services, including police and fire protection; the construction and maintenance of streets, and other infrastructure; solid waste services and water service; and recreational activities and cultural events. The financial reporting entity includes all the funds and account groups of the City of Asheville (primary government), as well as all of its component units. Component units are legally separate entities for which the government is financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations and, as such, are included in the reporting entity. The Asheville Public Financing Corporation and the Asheville Claims Corporation are reported as blended component units, and, as such, are not presented in the Basic Financial Statements. The Asheville Alcoholic Control Board is reported as a discretely presented component unit and is presented in a separate column in the Basic Financial Statements to emphasize that it is legally separate from the primary government and to distinguish its financial position, results of operations and cash flows from that of the primary government.

In government, much more than in private business, the budget is an integral part of a unit's accounting system and daily operations. The North Carolina General Statutes require all governmental units to adopt a balanced budget by July 1 of each year. The City's budget ordinance, passed by Council, establishes a legal limit on spending authorizations. In general, the City's operating budget remains in affect for one year. However, capital projects funds and grant funds are budgeted, as permitted by statute, for the life of each individual project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by fund or project total. For internal management purposes, the budget is detailed and compared to expenditures and encumbrances by line item within each department or project. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary controls. Encumbered amounts lapse at year-end. However, encumbrances are reappropriated in the following year's budget. Budgetary control is also facilitated by the use of an automated employee position classification system, which requires that every permanent position be budgeted.

Local economy

The City is the regional center of manufacturing, transportation, health care, banking, professional services and shopping. The economy is diverse, with strong representation in manufacturing, distribution, health care, retail trade and tourism.

In addition to being an important indicator of overall local economic health, Buncombe County retail sales activity also directly impacts the City's general fund budget through sales tax receipts. Retail sales countywide have shown strong growth since the recession of 2001-2002. An increase of 11.1% occurred between FY2006 and FY2007. Of the \$3.3 billion in retail sales recorded in Buncombe County during FY 2007, \$2.56 billion or 77% of those sales occurred within the City of Asheville. Among the eleven largest cities in North Carolina, Asheville had the highest level of retail sales per resident in FY 2007. This data reflects Asheville's position as the regional economic center for Western North Carolina. Asheville's high level of retail sales per resident is also likely associated with Asheville's status as a tourist destination.

Asheville's setting in the heart of a vast and beautiful recreational area has made tourism an important part of the local economy. The most recent data from the N.C. Department of Commerce indicate that domestic tourism in Buncombe County generated an economic impact of \$645.71 million in 2006, an increase of 10.4% over 2005. Buncombe County ranks 5th in travel impact among the state's 100 counties. Approximately 9,000 jobs in Buncombe County are directly linked to travel and tourism. Growth in hotel/motel sales is a good indicator of the status of the local tourist economy. Hotel/motel sales increased 13.5% between 2005 and 2006. Through the first six months of 2007, hotel/motel sales are up another 8.7% compared to 2006.

The unemployment rate is a critical indicator of relative strength in the economy. Buncombe County's unemployment rate decreased in FY2006 and continued at a low level through FY2007. As of September 2007, the county's unemployment rate stood at 3.5%. Local unemployment rates are below both the statewide (4.9%) and national (4.7%) unemployment rates.

Between 1997 and 2006, the total employment in Buncombe County increased by 11,695 jobs or 11.3%. In 2006, average Buncombe County employment increased by 4.70%, reaching an all-time high of 115,139.

The County's leading industry in terms of employment is health care and social assistance, which employed 20,763 people in 2006. Over the last 5 years, health services added twice as many jobs as any other sector. Other leading industry sectors include retail trade, manufacturing, accommodation and food services. Together these four sectors accounted for approximately 54% of all Buncombe County jobs in 2006. Despite the fact that it remains the fourth largest industry sector in Buncombe County, the manufacturing sector has experienced a significant decline in recent years. Over the last five years, local manufacturing employment has declined 19%.

According to the U.S. Bureau of Economic Analysis, in 2005 Buncombe County had a per capita personal income (PCPI) of \$30,158. This PCPI ranked 19th in the state and was 97 percent of the state average, \$31,041, and 87 percent of the national average, \$34,471. The 2005 PCPI reflected an increase of 5.2 percent from 2004.

Long-Term Financial Planning

The Capital Improvement Program (CIP) is a six-year financing plan for infrastructure improvements, facility construction and improvement, and equipment acquisition. The City's emphasis on long-range capital improvement planning focuses attention on current and future needs of the community and on balancing those needs with the City's fiscal resources.

The CIP is updated annually based on input from Council, the public and City staff. The FY 2007 CIP was influenced by a number of other planning processes, including the City's long-range Strategic Operating Plan, the Unified Development Ordinance, the Parks & Recreation Master Plan, the Pedestrian Thoroughfare Plan, and the 1998 Parking Study.

In order to be included in the CIP, a capital item or construction project must have a useful life of more than one year and an initial cost of at least \$25,000. All capital items not meeting these criteria are included in the annual operating budget as capital outlay. The one exception to this rule is vehicles. All vehicle purchases, regardless of price, are included in the CIP.

The General Capital Reserve Fund provides funding for all general government capital needs. FY 2007 funding was provided by a \$5,574,654 pay-as-you-go contribution from the General Fund, \$3,963,025 in

debt proceeds, \$49,600 in funding from the N.C. Department of Transportation (NCDOT), and \$600,000 from the reallocation of prior year funding.

CIP items and projects in the Water Resources Operating & Capital Improvement Funds were funded with utility revenues generated by the Water Resources Operating Fund and the capital maintenance fee. The purpose of the capital maintenance fee, which was budgeted to total \$6.1 million in revenue, is to provide funding for major capital improvements such as water line replacements and water treatment source improvements. With this new fee, the total capital budget for FY 2007 was \$10.3 million. This total included funding for mandatory capital improvement projects, an aggressive meter change-out program, rolling stock, and small capital equipment.

Relevant Financial Policies

As a recipient of federal and state assistance, the City is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the Finance Department staff of the City. As a part of the City's single audit requirements, tests are made to determine the adequacy of internal controls as well as to determine that the City has complied with applicable laws and regulations.

The Governmental Accounting Standards Board issued Statement No. 45 in June of 2004. This Statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expenses and related liabilities, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

This statement will impact the City to the extent the City provides health insurance benefits to retirees. When implemented, Statement 45 will provide those who use government financial reports with improved information about the cost of providing post-employment benefits, the commitments that governments have made related to those benefits, and the extent to which those commitments have been funded.

Implementation of GASB Statement No. 45 will be required no later than the fiscal year ending June 30, 2008. An actuarial firm has prepared preliminary estimates of the financial impacts this pronouncement might have. Management will use the intervening time to review the nature of the commitment to current and future retirees, the potential magnitude of the liability and expense, and to evaluate alternatives for managing this liability and expense upon the required implementation date.

Insurance Programs

The City maintains "insurance programs" for certain general liability and casualty risks, fringe benefits and workers compensation obligations. Revenues and expenses for this program are recorded in the Risk and Benefits Management Division of the General Fund. For all of its self-insured retention programs, the City retains the services of outside third party administrators for the professional management and adjustments of claims. The City is protected by the placement of a \$15,000,000 excess-only liability program across the liability lines under the contract. The City also insures its real and property holdings, including its dams for a total of \$240,000,000 in assets. For the City's self-insured Workers Compensation and Employer Liability, the City retains out-of-pocket losses of \$300,000 on specific claims and an aggregate loss of \$3,600,000 over a three-year period. The City carries a \$3,000,000 specific and aggregate excess over these deductibles, with the aggregate excess attachment 75 percent of the annual loss over a three-year period.

Awards and Acknowledgements

The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2006. This was the twenty-seventh time that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2006. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

We recognize the City's responsibility for the contents of this report and would like to express our appreciation for the cooperation and assistance of our independent auditors, Dixon Hughes PLLC, in its preparation. Also, this report would not have been possible without the efficient and dedicated service of the entire staff of the City's Accounting Division as well as the cooperation of all other departments and divisions of the City. We would also like to thank the members of Council for their interest and support.

As required by North Carolina General Statute 159-34, a copy of this report will be filed with the Secretary of the North Carolina Local Government Commission. In addition, a copy will be sent to the City Clerk to be available for public inspection.

Respectfully submitted,



Gary W. Jackson
City Manager



Benjamin C. Durant, III
Chief Financial Officer

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